

Your New Construction Homebuyer's Guide

**Realizing A Newly Built Dream And New-
Found Financial Security**

Table Of Contents

New Construction Or Existing Resale?

The Advantages Of Buying A Newly Built Home

The Advantages Of Buying An Existing Resale Home

Narrowing Down The Many Choices For New Construction

What Kind Of Home Do You Want?

Schedules And Budgets

Scheduling Concerns

Budget Considerations

Dreaming, Designing, And Planning

Visualizing Your New Home

Choosing A Builder.....

Evaluating The Location

Working With A Real Estate Agent.....

Staying Involved During The Building Process

Monitoring Progress.....

Hiring An Inspector.....

Handling Problems

Financing Your New Home

Talk To An Experienced Mortgage Consultant

Become A Preapproved Buyer.....

Preparing For Your Closing

New Home Wish List.....

Glossary.....

New Construction Or Existing Resale?

The prospect of being the first owner of a new home is exciting. Shiny new appliances. Fresh paint. Untouched carpets. Empty rooms and bare walls that allow your tastes to shine through from day one. And in many cases, you'll find that most of the neighbors are new to the community too, which can provide the basis for lasting friendships. But there are a lot of things to consider and keep organized. This guide has been created to help you prepare for your new home purchase so that you know what to expect and can handle it all with ease.

Whether you buy a newly built home or purchase an existing resale home, both approaches offer advantages. So, examining both options is a great way to get started in your home purchase. Keep in mind that you're not just declaring a preference of new versus old. The thing to ask yourself is which type of home will best meet your needs.

The Advantages Of Buying A Newly Built Home

- Conforms to today's building codes and often has more safety features and fewer health hazards than older homes.
- Offers warranties in case certain problems develop over time, and the home's major appliances and systems are typically covered by manufacturers' warranties.
- Reflects the latest in modern architecture and layout. Great rooms, bigger closets, and additional bathrooms often replace the formal dining and living rooms found in older homes.
- More energy efficient in design with better windows, more efficient heating and cooling equipment, and a more extensive use of insulation.
- Built with materials requiring less maintenance, such as aluminum siding, vinyl windows, and pressure-treated wood decks that resist rot and insects.
- Has the ability to be customized more easily than a resale home, since you can often select many options and details ranging from floor plans and paint colors to faucets and light fixtures.
- Boasts wiring for today's technologies such as multiple phone lines, high-speed Internet connections, and extra cable outlets.
- Provides additional opportunities to meet new friends as the neighborhood develops and new households move in.

The Advantages Of Buying An Existing Resale Home

- Displays more architectural detailing than the budget for a new home may allow.
- Has mature trees and landscaping.
- Offers an established neighborhood with neighbors who can tell you all about your new area.
- Positioned on more land than newer properties due to changes in land-use patterns.
- Likely to be in a location closer to metropolitan areas than a new home in an outlying suburb.
- Provides the opportunity to afford a larger home since, on a square-foot basis, existing properties tend to be less expensive than new ones.
- Boasts added amenities such as blinds, landscaping, built-ins, etc.
- Tends to have a lower property tax rate than a new home, depending on the locality.
- Offers cost savings compared with a new home. Owners of new homes can be required to pay for local bonds sometimes associated with new development: schools, parks, or road and transportation improvements, for example.
- Gives buyers more room to negotiate the price or terms of sale than a new home does.
- Provides a faster move-in time line since you should be able to move in immediately after closing. Moving into a newly built home will depend on the contractor's schedule.

Narrowing Down The Many Choices For New Construction

What Kind Of Home Do You Want?

Once you've decided that buying a newly built home is right for you, you now need to determine which type of new home best suits your needs:

Shop For A Single-Family Home In A Development: A builder purchases a large parcel of land and constructs many homes within a neighborhood. This provides the advantages of joining a complete subdivision being built by one builder, who can offer a variety of sizes and styles and a wealth of options.

Consider Condominiums: A condominium is not just a style of house, it's a form of ownership. When you buy a condo, you own the inside of your unit, but not the outside. The exteriors and common areas are owned, managed, and controlled collectively by all of the condo owners. Condos offer the same tax breaks and equity advantages of homeownership and are typically less expensive than single-family homes. They also free you from jobs like mowing a lawn and shoveling snow. And they may provide amenities, such as a swimming pool or tennis court. But keep in mind that you may have less space and privacy than in a single-family home. And, in a slow market, condo prices are usually the first to suffer and the last to rebound. In addition, the monthly association fees that you pay can increase. Be sure to investigate the rules set by the association that manages the complex, which can limit the number or type of pets you can have, set noise restrictions, and limit the use of common areas.

Investigate Modular Homes: Modular homes are increasingly attractive to homebuyers and builders looking to reduce the hassle and expense of building a traditional site-built home. Built and shipped in parts, or modules, and assembled on location, modular homes offer an appealing combination of quality, speedy construction, and lower cost. The on-site work, such as pouring a foundation, can be done while the modules are being assembled and shipped. Once the modules arrive on the site, a builder can complete assembly in a few weeks. Generally, modular-home projects are less likely to go over budget, and the end result is virtually indistinguishable from a traditionally built home.

Start With A Building Lot: If you're the adventurous, imaginative type, you might warm to the notion of imagining your home rising upon a lot that you've selected. If you've already found a lot, you can custom pick each contractor by acting as the general contractor, do some of the work yourself, or hire someone to design and build your entire home from start to finish. You may also be able to purchase a building lot from a builder and negotiate the homebuilding process. Get the details in our guide on custom homebuilding.

Schedules And Budgets

If you're like most homeowners, many of the choices you'll make will ultimately be driven by your home purchase budget and how much you can afford. That said, time is money. So it's a good idea to keep your budget and schedule in the same place, compare them often, and plan as far in advance as possible.

Scheduling Concerns

Knowing when you'd like to or need to move can help you select the right type of home.

- **Nearly Completed Homes:** You can find nearly completed new homes where you can come in and just make selections for appliances and finishing touches. If moving in quickly is a key driver for you, consider developments that are nearly completed rather than preconstruction sites. The homes can be ready to be occupied in a matter of weeks rather than months.
- **New Developments:** You may also want to explore model homes in a new development. These homes can provide a way to get into a home quickly. In addition, you may be able to negotiate more on price and amenities.
- **Construction Time Frames:** Preconstruction projects require much more planning and patience. It can take anywhere from 6 to 18 months, on average, for a new home to be built from the ground up. For many buyers, this longer time frame is balanced by the ability to customize many aspects of the project and the comparatively lower price compared to an already-completed new home.
- **Plan For Setbacks:** Delays are inevitable during the construction process, so plan for them. Be sure to determine where you'll stay if you need to leave your present home before your new home is ready.
- **Temporary Housing:** If there are significant delays in construction, find out if the builder is willing to cover or share the cost of your interim housing.

Budget Considerations

Buying a newly built home is typically more expensive than buying an existing resale home, so setting a budget is especially important.

Your builder will likely present a variety of options that are available for your home, from upgraded kitchen cabinets and Jacuzzi® tubs, to fireplaces and finished basements. It's helpful to identify those features that are "must have" items and those that are "nice to have." As design plans are finalized, be sure that everyone agrees on these priorities. And don't forget to consider the hidden costs of building and owning a new home:

- **Upgraded Materials:** While most builders offer a "standard" package of floor coverings and other materials, you may want to upgrade the materials that will be installed. Be aware that purchasing these materials and finishing touches through the builder may cost more than buying and purchasing them yourself.
- **Landscaping:** While the builder may include some basics, such as new sod, you may want to plan for additional landscaping, including trees and shrubs. Remember that you don't have to finish the landscaping right away. Consider doing the work after you move in and perhaps doing the work yourself to save money.
- **Rising Association Fees:** When a development is new, association fees may be subsidized by the developer, which means that the builder will pay a portion of the fees for a limited period of time. Once the development is completed, typically the full extent of the maintenance costs are realized and the association begins to assume the maintenance costs. These fees can increase substantially.
- **The Break-In Period:** "New" doesn't necessarily mean "perfect." During the first five years of homeownership, plan for some of the minor repairs that might typically occur in any new home. For example, the exterior may need painting fairly soon, as new wood tends to absorb paint more quickly.
- **Finishing Touches:** You'll need to ensure that all the little things are in place, from drawer pulls and blinds, to interior lighting and molding.

- **Develop Your Plan B:** It's likely that you'll need one. Maybe the bathroom fixtures you want are no longer available, or you realize that you want an option or feature that wasn't in your original plans. While you can't foresee all the things that may occur, build some flexibility into your budget and schedule appropriately to allow for unpredictable events.
- **Consider Resale Values:** As you customize your home, be careful not to over-improve it. The largest home in the neighborhood might be more difficult to sell.
- **New Appliances:** Most new construction homes do not include refrigerators, washers, dryers, or other useful items such as garage door openers.

Dreaming, Designing, And Planning

Visualizing Your New Home

You may already have a good idea of what you want your new home to look like. Since there are plenty of details in a new home, the following tips can help you get organized:

- **Put It On Paper:** Use the New Home Wish List on page 12 to detail each desired feature. Discussing each item with your builder is a good first step in realizing your dream.
- **Find Examples:** Collect pictures from magazines that show features or designs that you like. Collect samples of paint, fabric, or flooring materials that appeal to you.
- **Commit To Conserving Energy:** Design your home to offer savings on heating and air-conditioning bills while helping the environment. The government-backed Energy Star program contains ideas, guidelines, and links to local resources and builders that can help you conserve energy without sacrificing comfort or features. Visit www.energystar.gov.
- **Consider Local Codes:** Check with your town's building inspector to find out about zoning laws that might restrict your design. In some areas, for example, homes cannot exceed a certain height, must have a sloped driveway, or a preset distance between the house and the road.
- **Select A Floor Plan:** If you're looking for a home in a new development, your builder can probably provide you with a selection of floor plans. For custom homes, you can find floor plans and designs online, at your public library, and through local bookstores.
- **Hire An Architect:** If you want substantial modifications to a standard home, you'll need help from an architect. Your builder can probably suggest a few. You can also get references from the American Institute of Architects or the American Institute of Building Design.

Choosing A Builder

The reputation of the builder constructing your new home is important, so don't leave anything to chance. Use the following guide during your builder-selection process.

1. Compile a list of potential builders:

- Get recommendations from friends, relatives, and local real estate agents.
- Contact the local builder's association to request a list of area builders.
- Browse the real estate section of your local newspaper for information on the types of homes and listing prices of homes that local builders are constructing.

2. Obtain basic information about each company that you interview. Here are some interview questions:

- How long has the company been in business?
- What percentage of their business comes from referrals?
- Is the builder comfortable building the style of house you like?
- What energy-efficient features will be included in the home?
- What is covered in the home warranty? Get a copy so that you can understand the details.
- What service can be expected after the sale? Are any service calls included?
- Which local licenses does the builder have and what licenses are needed in the locality?
Building codes may require a licensed contractor for the house to pass certification inspections.
- What happens if there is an accident on the job? Who is responsible? What type of insurance does the builder have? Is it enough to cover the project and any injuries that may happen to the crew?
- If the builder belongs to a local builder's association, would they submit to the association's arbitration policy (if one exists) in case of a dispute?

3. Check references.

- Contact the local Better Business Bureau® and trade organizations to determine if there is a history of complaints.
- Determine whether the company is financially stable. Obtain a copy of their credit report.
- Review the minutes from the homeowners' association meetings, if they are available, for information about the builder's work.
- Talk to references the builder provides, as well as to other people whose homes were built by the same builder.
 - ✓ Ask about any problems the reference encountered with the builder.
 - ✓ Inquire about the builder's responsiveness.
 - ✓ Determine how satisfied they are with their new home.
 - ✓ Question their willingness to purchase another home from this builder.

4. Inspect the work.

- Ask to see other homes the builder has completed and visit a current construction site.
- Drive by some of the builder's recently built homes to check for visual appeal.
- Examine the homes for the overall quality of the construction. Look at everything, including paint, trim, and flooring.

5. Trust your instincts.

- Look for a builder who can communicate with you effectively. This is critical to the project and ensuring your dream home becomes a reality.
- Be clear about your goals and desires for your home and find out how the builder will make it happen.
- Ask lots of questions. Interacting and establishing a working relationship with the builder is critical. You need to be comfortable with every aspect of the project and understand exactly what will be done and when.

6. Negotiate the contract.

- Your attorney can help you develop or evaluate the contract (which may be provided by the builder) to describe how the project will proceed.
- The contract should detail the materials, options, a payment schedule, and any other terms, including:
 - ✓ Builder's responsibilities: Exactly what work is to be done, within what time frame, and for what price?
 - ✓ Buyer's responsibilities: Will you be buying materials, obtaining permits, or preparing and maintaining the construction site?
 - ✓ Handling disputes: Establish ahead of time how a dispute will be resolved.
 - ✓ Responsibility for construction costs: Will the builder carry the costs until the house is finished or must the buyer obtain construction financing?

Evaluating The Location

Your new home's location is a key component of its future value. Before you commit to buying a home in an unfamiliar town or neighborhood, gather as much information as you can.

- Gather some basic information about the quality of the local schools, crime in the area, and accessibility to major highways.
- Consult online and traditional sources. A growing number of Web sites offer neighborhood statistics.
- Visit the local city hall to obtain information on property values in the area.
- Investigate future development plans for highways or shopping centers that might affect the area. Talk to the local town government to find out about zoning or future development. If the town has a master plan, ask to see it.
- Plan a firsthand look at schools and local businesses and even talk to potential neighbors.
- Test your commute and learn about traffic patterns. If you're going to use public transportation, jump on a bus or subway for a run-through.

Working With A Real Estate Agent

Many of the questions that you might have about a new area, a community, or a builder can be answered quickly by a local real estate agent. The right agent can help you narrow your search, offer information on property values, and save you time in evaluating your options.

There may be dozens of real estate firms and hundreds of agents in an area, so do some research prior to selecting one. To start, get references from friends, relatives, and co-workers. Also, check out real estate Web sites. You might also identify agents who work in your area by driving through adjacent neighborhoods and noting the names on "For Sale" signs.

Once you narrow the field, interview two or three agents. Look for an experienced professional who is easy to talk to and whom you feel you can trust. A good real estate agent should be able to:

- Listen to what you want in your home.
- Show you new homes that meet your requirements.
- Provide information about the communities, including prices and characteristics of houses in the area, school locations, property tax rates, community services, and any unusual building code regulations.
- Present your offer to the seller.
- Offer advice regarding professional home inspectors and title companies.

Staying Involved During The Building Process

Monitoring Progress

While your new home is under construction, you should monitor its progress during the various building phases.

- **Readying The Lot:** Depending on how far along the construction has progressed, you may see the lot's borders identified and staked by a surveyor and the lot cleared and graded in preparation for building. You'll want to be sure that the site for your home has the appropriate drainage.
- **Establishing The Foundation:** Excavation paves the way for your home's foundation, which can be made from poured concrete, brick, or concrete blocks. A mason will construct the walls if your house has a basement.
- **Connecting Utilities:** At this stage, your house is connected to local water and sewer, or well and septic facilities. Gas, oil, electric, and phone connections are also made.
- **Framing The Structure:** Once the foundation is established, the frame of the house is created. Be sure that the rooms are laid out as specified in your plans. During this phase, the electrical wiring and plumbing are "roughed in" and must pass inspection before the walls are installed.
- **Finishing Work:** Your home is nearing completion. The exterior siding and roofing work begins. The drywall that forms the inside walls is installed, the plumbing and electrical work is completed, floors and molding are installed, and the painting and wallpapering are done. You'll also see the kitchen cabinets and other amenities installed.

At various stages during construction, local building inspectors will check the construction to ensure that it meets local building codes. This typically occurs for framing, electrical, and plumbing work, but may apply to other phases, depending on the local codes. Work that doesn't meet building codes must be corrected before construction can proceed. Once the construction is completed, you'll conduct a final walk-through to inspect your new home and make sure it meets your requirements. Make a list of any details that have been overlooked and discuss a schedule for completing these items with your builder.

Hiring An Inspector

Some new homeowners hire a professional inspector who represents them during the various phases of the construction process. An inspector is usually well versed in construction techniques and local building codes and can be a worthwhile investment in ensuring the quality of your home. If you want to hire an inspector, be sure to include the schedule of inspections into your purchase contract. You can assist your inspector by obtaining copies of the lot's soils report, surveys, blueprints, and any construction documents.

Handling Problems

When problems or questions arise, try to work through them with the builder. Sometimes, delays and problems arise from understandable causes. Speak with the builder about any issues that concern you. Sometimes, it's helpful to describe the situation in writing, as well as to state how you would like the problem to be addressed. If you are unable to resolve the problem with the builder directly, consider involving a third party.

- If the builder is a member of a local builder's association, see if they provide arbitration.
- Contact your state or local consumer-protection program, which is affiliated with the Office of the Attorney General.
- You can also contact the Better Business Bureau.⁸
- You may want to consider legal action under the guidance of your attorney.

Financing Your New Home

Talk To An Experienced Mortgage Consultant

Most lenders offer a variety of mortgage programs suitable for new homes, including both *fixed-rate* and *adjustable-rate* mortgages with a choice of terms and down payment options, as well as low- and no-down-payment programs.

While your new home is being built, you can typically protect yourself against rising interest rates, which enables you to lock in an interest range for up to 360 days. If the market improves, you can usually exercise a one-time float-down option to reduce your interest rate at no additional cost.

Become A Preapproved Buyer

By lining up financing before you start your new home search, you can enhance the efficiency of the entire home buying process. Most lenders can provide you with a preapproval commitment letter that makes you a priority buyer in the eyes of real estate agents and builders. Your preapproval will tell you exactly how much you can afford. In addition, many sellers or builders will require a preapproval letter prior to reviewing an offer.

Preparing For Your Closing

You've submitted your home financing application and received a decision. Here's a summary of steps, which need to be completed prior to closing:

1. Appraisal

Your lender will help you find a professional appraiser to determine the market value of your home. In addition to ensuring the lender that the property backing the loan will cover the loan amount in case of default, an appraisal can also provide you with a comforting sense of the home's value by comparing it to others recently sold in the area.

2. Home Inspection

Even with new homes, a home inspection may be required as part of your home financing approval process. At a minimum, the inspection should cover all the home's major systems and structural elements, including the foundation, electrical system, heating and cooling systems, insulation, roofing, plumbing, and all exterior features. Depending on where the home is located, you may also want to obtain a pest inspection to look for any issues related to termite or mold infestations. You should make every effort to be present during the inspection, so you can see any problems firsthand.

3. Homeowners Insurance

Did you know that most mortgage lenders, at closing, require proof that you've purchased homeowners insurance?

In the event of a loss such as a fire, tornado, or burglary, homeowners insurance can pay for damages to the home, as well as for costs to repair or replace contents. If the home is damaged and becomes uninhabitable, homeowners insurance can cover additional living expenses for a period of time while your home is being repaired. Homeowners insurance can also protect you from loss if someone is injured or their personal belongings are damaged while on your property.

4. Title Insurance

There are two types of title insurance: one protects the lender and one protects the borrower from claims against your ownership of the property.

Such claims may be made by undisclosed spouses, heirs of previous owners, creditors holding liens against previous owners, or other parties. Your lender will most likely require you to purchase a title policy, which will cover their interest in the property. It's up to you if you would like to purchase a policy to protect your interest in the home. Your mortgage consultant will be able to recommend a title insurance company who can provide you with additional information about the policies available in your area.

New Home Wish List

Use this page to decide upon the features you want at your next address. There are many points to consider, but it's a worthwhile endeavor.

1. Style Of Home

- ☐ Rambler/Ranch ☐ Traditional ☐ Two Story ☐ Split Level
☐ Contemporary ☐ Modular ☐ Other _____

2. Exterior Type

- ☐ Wood Siding ☐ Vinyl Siding ☐ Aluminum Siding ☐ Brick
☐ Stucco ☐ Stone ☐ Other _____

3. Lot Size

- ☐ Small ☐ Medium ☐ Large ☐ Not important

4. Foundation Type

- ☐ Slab ☐ Crawl Space ☐ Basement ☐ Walkout

5. Square Feet Of Living Space? _____

6. Number Of Levels?

- ☐ 1-2 ☐ 2-3 ☐ Other _____

7. Number Of Bedrooms?

- ☐ 1-2 ☐ 2-4 ☐ Other _____

8. Number Of Bathrooms?

- ☐ 1-2 ☐ 2-3 ☐ Other _____

9. Laundry Room Location?

- ☐ Basement ☐ Main level ☐ Bedroom level

10. Separate Dining Room? ☐ Yes ☐ No

11. Fireplace? ☐ No ☐ Wood-Burning ☐ Gas ☐ Wood Stove

12. Exterior Features

- ☐ Deck ☐ Patio ☐ Front Porch ☐ Screened Porch ☐
☐ Sunroom ☐ Fenced Yard

13. Garage

- ☐ None ☐ 1 Car ☐ 2 Car ☐ 3 Car
☐ Attached ☐ Detached ☐ Workstation Included

14. Central Air Conditioning

- ☐ Yes ☐ No ☐ Wall Units Okay ☐ Window Units Okay

15. Heating

- ☐ Gas ☐ Oil ☐ Electric ☐ Doesn't Matter

16. Near Public Transportation? ☐ Yes ☐ No

17. Specific School District? ☐ Yes ☐ No ☐ Not Important

If yes, name of school: _____

18. Distance To Place Of Employment? _____ Miles _____ Hours ☐ Not Important

Glossary

Adjustable-Rate Mortgage (ARM) - A mortgage in which the interest rate is adjusted periodically according to a pre-selected index.

Alternative Financing - A home financing program that accommodates borrowers with special qualifying factors, including poor credit histories.

Annual Percentage Rate (APR) - A yearly percentage rate that expresses the total finance charge on a loan over its entire term. The APR includes the interest rate, fees, points, and mortgage insurance, and is therefore a more complete measure of a loan's cost than the interest rate alone. The loan's interest rate, not its APR, is used to calculate the monthly principal and interest payment.

Appraisal - A report made by a qualified person setting forth an opinion or estimate of property value. The term also refers to the process by which this estimate is obtained.

Appreciation/Depreciation - "Appreciation" refers to the increase in a property's value, except for inflation. When a property decreases in value it is called "depreciation."

Assessed Value - The value that a taxing authority places on real or personal property for the purpose of taxation.

Automated Underwriting - A computerized method of reviewing home mortgage applications for loan approval.

Bridge Loan - A form of second deed of trust or mortgage that is collateralized by the borrower's present home (which is usually for sale) in a manner that allows the proceeds to be used for closing on a new house before the present home is sold.

Broker - An individual employed on a fee or commission basis as a real estate agent to bring buyers and sellers together and assist in negotiating contracts between them for the sale of residential real estate.

Building Codes - Regulate the design, construction, and materials used to meet standardized guidelines for building safety.

Building Permits - Provide official permission to build from the local municipality.

Buyer's Broker - Most real estate brokers and agents work only for the sellers. A buyer's broker serves the interest of the buyer and has no relationship with the seller.

Capital Gains - Used for tax purposes, this is the capital gain you make when you sell your home. For example, if you purchase a property for \$100,000 and sell it some years later for \$150,000, your capital gain is \$50,000.

Closing - The consummation of a real estate transaction. The closing includes the delivery of a deed, financial adjustments, the signing of notes, and the disbursement of funds necessary to complete the sale and loan transaction.

Closing Agent - Usually an attorney or title agency representative who oversees the closing and witnesses the signing of the closing documents.

Closing Costs - The costs paid by the mortgage borrower (and sometimes the seller) in addition to the purchase price of the property. These include the origination fee, discount points, appraisal, credit report, title insurance, attorney's fees, survey, and prepaid items such as tax and insurance escrow payments.

Commission - Compensation for negotiating a real estate or loan transaction, often expressed as a percentage of the selling price or loan amount.

Commitment Letter - A formal offer by a lender stating the terms under which it agrees to loan money to a homebuyer.

Comparable Market Analysis (CMA) - A written analysis of houses having similar characteristics currently being offered for sale as well as comparable houses sold in the past six months. This enables you to determine if you are paying market value for a home, and to identify whether market prices are rising or falling.

Contingency - A condition that must be met.

Conventional Loan - A mortgage not obtained under a government insured program (such as FHA or VA).

Credit Report - A report detailing an individual's credit history.

Debt-To-Income Ratio - A formula lenders use to determine the loan amount for which you may qualify. Also known as the "back-end ratio." Guidelines may vary, depending on the loan program.

Default - The failure to perform an obligation as agreed in a contract.

Down Payment - Money paid to make up the difference between the purchase price and the mortgage amount.

Drywall - Material used to complete the inside walls of a house.

Environmental Engineer - Consultant on environmental impact issues, including water supply engineering, air pollution control, and wastewater treatment.

Equity - The ownership interest; i.e., portion of a property's value over and above the liens against it.

Escrow - An item of value, money or documents, deposited with a third party, to be delivered upon the fulfillment of a condition. For example, the deposit by a borrower with the lender of funds to pay taxes and insurance premiums when they become due, or the deposit of funds or documents with an attorney or escrow agent to be disbursed upon the closing of a sale of real estate. In some parts of the country, escrows of taxes and insurance premiums are called impounds or reserves.

Fixed-Rate Mortgage - A mortgage in which the interest rate and payments remain the same for the life of the loan.

FICO Score - A numerical rating developed and maintained by Fair Isaac and Company that indicates a borrower's creditworthiness based on a number of criteria.

Float The Rate - This term is used when a mortgage applicant chooses not to secure a rate lock, but instead allows the note rate pricing to fluctuate until the applicant decides to lock in, usually no later than five days prior to closing.

Foreclosure - A legal procedure in which property mortgaged as security for a loan is sold to pay the defaulting borrower's debt.

Framing - Building the skeleton of the house by erecting the walls, floors, ceiling, and roof structures.

Front-End Ratio - Also known as the housing expense-to-income ratio, it compares your proposed monthly house payment (PITI) to your total household gross monthly income.

General Contractor - Supervises the building process by managing the construction effort performed by the various contractors.

Good Faith Estimate - A document which tells borrowers the approximate costs they will pay at or before settlement, based on common practice in the locality. Under requirements of the Real Estate Settlement Procedures Act (RESPA), the mortgage banker or mortgage broker, if any, must deliver or mail the GFE to the applicant.

Government Loan - A mortgage insured by a government agency, such as FHA, VA, Farmers Home Administration or a state bond program. Private lenders generally make the loans.

Home Warranty - a kind of insurance that covers the cost of repairs to specific items in the home for a specified period of time.

Homeowners Insurance (also called Hazard Insurance) - A real estate insurance policy required of the buyer protecting the property against loss caused by fire, some natural causes, vandalism, etc. May also include added coverage such as personal liability and theft away from the home.

House Inspection - A thorough evaluation and written report of a home's condition both inside and out. The inspection is valuable in locating any problems in a property and helps you determine the extent of renovation needed. You can use the report to have the seller make repairs or reduce the purchase price. Always use your own inspector, and do not rely solely on the seller's inspection reports.

HUD-1 Settlement Statement - A standard form used to disclose costs at closing.

HVAC - Heating, ventilation, and air conditioning systems, including the furnace, heat pumps, ductwork and associated wiring.

Index - A published interest rate, such as the prime rate, LIBOR, T-Bill rate, or the 11th District COFI. Lenders use indexes to establish interest rates charged on mortgages or to compare investment returns. On ARMs, a predetermined margin is added to the index to compute the interest rate adjustment.

Interest Rate - The percentage of an amount of money, which is paid for its use for a specified time.

Interim Interest - The interest that accrues, on a per-diem basis, from the day of closing until the end of the month.

Interior Designer - Provides consultation on creating a suitable home interior by using colors, furnishings, floor coverings, drapes, patterns, and textures.

Kitchen And Bath Specialist - Certified Kitchen Designers (CKD) or Certified Bath Designers (CBD) who specialize in design enhancements for kitchens or bathrooms, including fixtures, cabinetry, etc.

Leverage - Using credit or borrowed money to increase the rate of return from an investment. For example, by purchasing a \$100,000 home with 10% down, you are using just \$10,000 to control the investment.

Lien - A legal claim or attachment against property as security for payment of an obligation.

Loan Conditions - These are terms under which the lender agrees to make the loan. They include the interest rate, length of loan agreement, and any requirements the borrower must meet prior to closing.

Loan Payment Reserves - A requirement of many loan programs that, in addition to funds for the down payment and other purchase-related costs, you have saved enough money to cover one or two months of mortgage payments after your closing.

Loan Settlement - The conclusion of the mortgage transaction. This includes the delivery of a deed, the signing of notes, and the disbursement of funds necessary to the mortgage loan transaction.

Loan-To-Value (LTV) - The ratio between the amount of a given mortgage loan and the lower of sales price or appraised value.

Margin - The set percentage the lender adds to the index rate to determine the interest rate of an **ARM**.

Modular Home - A factory-assembled residence built in units or sections, transported to a permanent site and erected on a foundation. Excludes mobile homes.

Mortgage - The conveyance of an interest in real property given as security for the payment of a loan.

Mortgagee - The lender on a mortgage transaction.

Mortgage Insurance (MI) - See **Private Mortgage Insurance (PMI)**.

Mortgagor - The borrower in a mortgage transaction who pledges property as security for a debt.

Multiple Listing Service - A computer-based shared listing service for real estate agents that provides descriptions of most of the houses for sale in an area.

Nonconforming Loan - Conventional home mortgages not eligible for sale and delivery to either FNMA or FHLMC because of various reasons, including loan amount, loan characteristics, or underwriting guidelines.

Note - A general term for any kind of paper or document signed by a borrower that is an acknowledgment of the debt, and is, by inference, a promise to pay. When the note is secured by a mortgage, it is called a mortgage note and the mortgagee (lender) is named as the payee.

Origination Fee - The amount charged for services performed by the company handling the initial application and processing of the loan.

Points - A one-time charge by the lender to increase the yield of the loan; a point is 1 % of the amount of the mortgage.

Preapproval - A written commitment from a lender, subject to a property appraisal and other stated conditions, that lets you know exactly how much home you can afford.

Prepays - Closing costs related to the mortgage loan, which are collected at loan closing — including per diem prepaid interest and initial deposits of monthly escrows of taxes and insurance.

Principal - The amount borrowed or remaining unpaid; also, that part of the monthly payment that reduces the outstanding balance of a mortgage.

Private Mortgage Insurance (PMI) - Insurance written by a private company protecting the mortgage lender against loss resulting from a mortgage default.

Processing - The preparation of a mortgage loan application and supporting documentation for consideration by a lender or insurer.

Purchase Contract (Agreement/Offer) - An agreement between a buyer and seller of real property, setting forth the price and terms of the sale. Also known as a sales contract.

Rate Cap - The limit of how much the interest rate may change on an ARM at each adjustment and over the life of the loan.

Rate Lock - The borrower and the lender agree to protect the interest rates, points, and term of the loan while it is processed.

Real Estate Agent - A salesperson, usually licensed by the state, and supervised by a broker. Agents work solely on commissions earned by selling properties.

Realtor® - Person licensed to sell or lease real property acting as an agent for others and who is a member of a local real estate board affiliated with the National Association of Realtors.

Return On Investment - The percentage of capital gain that you make on an investment. For example, say you invest \$1,000 into a property, and a year later it is worth \$1,500. Your return on investment equals the profit (\$500) divided by the initial investment (\$1,000) or 50%.

Roughed In - Installing wiring, plumbing, and heating vents before the walls are covered.

Soil Test - A test boring of the soil from where the house will sit to ensure that it can handle the load of the structure.

Structural Engineer - Develops structurally sound solutions that fit with an architect's design and ensure that structures can withstand stresses from earthquakes, wind, ice, and snow.

Survey - The measurement and description of land by a registered surveyor.

Title Insurance - An insurance policy that protects a lender and/or homebuyer (only if homebuyer purchases a separate policy, called owner's coverage) against any loss resulting from a title error or dispute.

Truth-In-Lending Statement - A Federal law requiring full disclosure of credit terms using a standard format. This is intended to facilitate comparisons between the lending terms and financial institutions.

Underwriting - Analysis of risk, determination of loan eligibility, and setting of an appropriate rate and terms for a mortgage on a given property for given borrowers.

VA Funding Fee - The amount charged on VA mortgages to cover administrative costs.